Without attempting a general discussion of the problem now, it may be said that a distance tariff is not the horrible thing depicted by Professor Meyer and the railroad apologists. Doubtless the ideal condition would be the freedom of movement that would come from gratuitous transportation. But we happen to live in a world in which labor is required to drag things over the ground, and hence we cannot ignore the expense due to distance in the adjustment of tariff rates. In the world as it is, some restriction of traffic is a good thing. Why should salt consumed in Texas be hauled over a thousand miles from Michigan, when it can be had for half the labor from Kansas?[16] That a distance tariff would bring us back to a condition similar to that existing before the adoption of the Constitution is a ridiculous proposition. A distance tariff does not mean an equal mileage rate; many methods of tapering are possible. The great merit of a distance tariff is that it does away with arbitrariness and favoritism, and is at the same time compatible with a maximum production of wealth. That it would cause economic readjustment is an argument for being careful in the matter of reform, but is not an argument against a distance tariff as an ideal to serve as a compass on the sea of rate controversy.

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A YEAR IN FINANCE

M. Raffalovich's monumental financial annual[1] comes forth as comprehensive, as painstaking, and as indispensable as ever. The present volume covers the economic and financial year 1904 and the beginning of 1905. It is more than a financial compendium: it is a carefully reasoned treatise on the economic elements of prosperity, combining special and very extended articles by financial students in the principal countries. The introduction is apparently the work of M. Raffalovich himself, and contains his impressions about the financial year.

Undoubtedly the great event of the year was the Russo-Japanese War. It occurred at a time when both Europe and the United States were recuperating from depression, and the effects of the war upon

[16] On this point see the testimony of Professor W. Z. Ripley, *Senate Hearings*, 1905, Vol. III, p. 2323.

[1] *Le Marché Financier*. By Arthur Raffalovich. Paris, 1905.

prosperity are worth consideration, since the belligerents were together expending an average of $40,000,000 per month. Whatever may be the effects of this destruction of capital in the long run, it is interesting to note that interest for short loans went down temporarily, although England did have some trouble to fund her floating debt.

In France the great financial achievement was the successful effort to sustain the price of Russian bonds. Couple this with the other fact that France has acted as peacemaker between England and Russia — that the English *rapprochement* of France has been a means of keeping peace in Europe — and it can be no longer said that France is an isolated power. The efforts to head off the bears in Russian securities were extraordinary. The attack on Port Arthur, February 8, gave a shock to the Bourse, but the real panic came February 20, after everybody thought the danger was past. The Syndic or President of the Parquet was summoned to the ministry of finance, and it was agreed to take measures to discourage the bears. The principal scheme was to allow sales only where the numbers of the securities were furnished (p. 74). The bears had to pay very heavy interest for their stock loans. But, of course, prices could only be kept up by a real demand and this came abundantly from capitalists who knew a good thing when they saw it. Toward the end of the year there was some return of speculation, of which London took advantage to sell Kaffirs.

It was worth noting why there had been plenty of money in Paris. The war had caused a let-up in business which set free a certain amount of capital; the United States paid $40,000,000 for the Panama Canal and that was transferred in specie which was put on deposit by the French treasury; a Russian loan of $160,000,000 also staid in the hands of the issuers and helped to make discount easy. Considering the vast quantity of Russian bonds held in France, the Bourse took the War with astonishing indifference.

France has been the seat of bitter parliamentary conflicts on the subject of the congregations, with respect to which the action of the government seemed arbitrary. A big strike at Marseilles involved the loss of $20,000,000. Still production went on and there was labor-legislation in favor of railroad employees.

Practically the same shocks on the Bourse occurred in Germany as in France. On February 5, the Government of Prussia sold 70,-

000,000 m. consuls to a syndicate at a high price. The war came February 8, and the syndicate had to close out at a loss and distribute the stocks among the members. It was considered that the government had asked too much and thus contributed to the overconfidence which preceded the war. At any rate the Prussian finance ministry made desperate efforts to support their bonds. They employed their government bank, the *Seehandlung,* to buy in stock — a dangerous precedent. On the other hand, the Reichsbank used the tactics of the Bank of England to control the market: it sold treasury bills and raised the rate of discount to 5 per cent.

Bank consolidation in Germany continued as well as the consolidation of the early and late processes of production in different industrial lines, which were formerly separate businesses. A community of interest was established among the chemical works by the usual method of exchange of directors. The steel pool, after careful elaboration, finally came into existence and was in full sympathy with the coal pool. Instead of trying to break up the trusts as we do, the Prussian government made great efforts to become a member of the coal pool. Its idea was to get control of the Hibernia Coal Mine. The result was a bitter fight on the Exchange in the stockholders' meetings, and in the courts, and final failure of the government. The industrials are too high in Germany as well as in the United States. There is too much call money.

In England, the London *Times* claimed that the last quarter of 1904 was an improvement. The large sums of French money that London has been using since 1900 have been paid off, that is to say, in part have been transferred to Germany on French order. An obstacle in funding the floating debt is found in the fact that the Transvaal, Irish Land, and Local loans pay 3 per cent., while consols pay 2½.

Considerable space is given to the arguments of Mr. W. R. Lawson on the causes of depression in England. Excessive refunding is that gentleman's diagnosis. Most of us have been used to think that Goschen refunded in 1888 because interest was low. No, says Mr. Lawson, interest was low because Goschen refunded. The small investor, the widow and the orphan, were compelled to seek better investments and hence the South American and South African manias and all the crises little and big — the Baring Crisis in 1890, the Wall Street and Australian Crisis in 1893, the Crisis on the Rand in 1895, the crisis in industrials in 1898, the loss of two-thirds of the

value of Argentine railway stocks, the losses to Englishmen by the reorganization of American railways. When you add to all this the new death dues of Sir William Harcourt in 1894 and 1895, seven years of drought in Australia, and the Transvaal War, there seems to be reason for depression. The prices of stocks 1896–98 were absurdly high and led to distress in industrials in 1898. In that year the guaranteed Greek 2½ per cent. loan sold at 100½!

The old discussion has been renewed as to whether England is using up her capital. It is astonishing what vitality this question possesses, when one recalls the discussion in the seventies in which Messrs. Giffen, Bourne, and others took part. It is suspected that savings are less and less productively invested. The funds of the postal savings banks and of the building societies have fallen off greatly. On the other hand, life and industrial insurance have made advances. In general the progress of the principal items of prosperity is disappointing. Mr. Lawson calculates an increase of only £204,000,000 in ten years. In the same period, 1894–1903, more than a billion pounds has been taken as taxes and public loans. An income tax of 12 pence and a succession tax climbing from 3 to 10 per cent. are more destructive than stock exchange panics. Incorporations have fallen off in England. This is partly due to various ways of circumventing the Companies Act of 1900 by registering in Guernsey or by registering at Somerset House without a prospectus.

The glut of funds in Paris was in marked contrast with their absence in London. The United States were compelled to pay for the Panama Canal in gold because of the lack of grain and cotton bills in New York at a time of the year when such bills are usually abundant. The French banks employed their idle cash first by buying exchange on England, but when the Berlin exchange went up they sold their English and bought German bills. Hence the hegira of gold from London to Berlin. As usual, exchange on India was unfavorable to the latter country. It was a remark of Lord Farrer that while the balance of trade is favorable to India, the balance of payments is favorable to England. But the needs of India, Argentine, and Egypt absorb but a small part of the annual gold output, most of which is drawn to Paris to back up the credits heaped up there in international loan transactions. If England continues to be the principal market for international exchange, is not Paris becoming the principal market for international loans? The biggest reserve recorded on earth was found in the Bank of France June 9, 1904 (until that of September 7, 1905, which went to $6,500,000 better).

The international indebtedness of the United States is becoming a question as interesting as the one mentioned above, whether England is using up its capital. We seem to be in a similar position to India: the balance of trade is in our favor but the balance of payments is against us. Our surplus exports 1897–1904 were four billion dollars; but foreigners have purchased in the United States three million shares more than they have sold! The trusts are largely financed by European capital. Our military expenses abroad, tourists, freights, and moneys sent back home by immigrants make up an enormous total. Instead of New York being the greatest financial center, it is New York that principally draws money from abroad and depends upon foreign banks, and its banks, like London's, are passing into the hands of Germans or other continentals.

Naturally the St. Petersburg bourse was struck harder by the war than those of other countries. M. Witte, with the strong individualism which marks his adherence to the liberal party and which is undoubtedly shared by M. Raffalovich, refused to allow the Bank of Russia to intervene in support of the market. Prices recovered as they were bound to anyhow. The war helped the Russian iron and steel industries, but injured the Polish textile works which had worked up a large trade with the Orient. The Volga peasants benefitted by the demands of the army for wheat. The Trans-Siberian railway completely disappointed the expectation of the Japanese war school that it would break down.

The test shows that the Russian treasury contained the full reserve claimed. The war was carried on from February to May without loans. The circulation was kept sound. In 1904 Russia used the following funds: funds on hand 156,000,000 roubles, reduction in the ordinary and extraordinary budgets, 148,000,000 roubles, treasury bills 432,000,000 roubles.

Japan borrowed 380,000,000 yen, of which 100,000,000 was borrowed in the United States and England and the rest at home. From the period January 1, 1904, to March 31, 1905, Japan spent 576,000,000 yen and met this expense by the following resources in addition to loans: budget economies 47,000,000 yen, special funds (Chinese war indemnity) 50,000,000 yen, increase in taxes 68,000,000 yen, temporary resources 31,000,000 yen. During eleven months of 1904, 75,000,000 yen of gold and silver were exported.

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